



EXECUTIVE MEMO

To: Executive Directors, DSN Boards
 CEOs, Private Providers
 Finance Directors

From: CFO Pat Maley

Re: Financial Issues Update

Date: August 26, 2021

The purpose of this memo is to catch up on a variety of financial issues for your situational awareness. DDSN’s focus on getting data to SCDHHS & its consultant Milliman to support residential and day service rate increases for the IDR D Waiver Renewal has consumed much of the summer. I want to thank the provider community for their support of this rate increase effort by their attendance at the many focus groups and many ad hoc data requests. I can attest SCDHHS is putting forth extensive effort and commitment to get the IDR D Waiver Renewal updated rates and enhanced services.

IDRD Waiver Renewal

SCDHHS’s public notice for the ID/RD Waiver Renewal can be found at: <https://www.scdhhs.gov/public-notice/proposed-renewal-intellectual-disability-and-related-disabilities-home-and-community>. You can get the DRAFT Waiver Renewal document and have one more opportunity to listen to the proposed changes via the following webinar: Monday, August 30 at 11 a.m. You can register for the webinar at the above link.

The SCDHHS must submit the IDR D Waiver Renewal to CMS by early October 2021. A massive amount of work has been underway since early June to meet this deadline. The renewal has committed to “tiered” individual residential habilitation services/rates and direct billing to SCDHHS, **both of which requires DDSN to move to a fee-for-service model on 1/1/22**. However, as of 8/25/21, SCDHHS/Milliman have not finalized the eight individual residential daily habilitation “tiered” rates to go into the renewal. SCDHHS is still working diligently with this goal in mind for the renewal submission.

Even though individual residential rates are not in the renewal DRAFT as of 8/25/21, you can get an inference on the direction of rates by the DRAFT Renewal identifying the “**average cost/unit**” for DDSN’s major services’ (pages 230-233) as compared to SCDHHS’s current Medicaid reimbursement rate to DDSN as follows:

Service	Comparison of SCDHHS Current Service Rate to Renewal's Average Cost/Unit			
	SCDHHS current rate	Renewal's "average cost/unit"	difference	% increase
Daily Residential Habilitation	\$ 196.99	\$ 231.32	\$ 34.33	17.4%
SLP I (Res. Habilitation 15 min unit)	\$ 15.83	\$ 18.69	\$ 2.86	18.1%
Career Prep (2-3 hour unit)	\$ 31.29	\$ 36.93	\$ 5.64	18.0%
Day Activity (2-3 hour unit)	\$ 31.29	\$ 36.93	\$ 5.64	18.0%
Community Service (2-3 hour unit)	\$ 31.29	\$ 36.93	\$ 5.64	18.0%
Support Center (2-3 hour unit)	\$ 31.29	\$ 36.93	\$ 5.64	18.0%
Group Employment (2-3 hour unit)	\$ 31.29	\$ 36.93	\$ 5.64	18.0%
Individual Employment (15 min unit)	\$ 16.48	\$ 24.74	\$ 8.26	50.1%

I am optimistic the IDR Waiver Renewal will meet its objectives by the October 2021 deadline, but we still have work to do during the public notice DRAFT period to continue to work with SCDHHS & Milliman to solidify the individual residential “tiered” rates hopefully to be added to the final CMS submission.

From my financial perch, key points in the 247 page DRAFT IDR Waiver Renewal are:

- Page 1: Summary of changes in the waiver, to include ***“add Residential Habilitation tiers of service and update Career Preparation, Day Activity, Community Services, Employment Services definitions.”***
- Page 54: Description of the proposed eight individual residential habilitation settings. A key element in this proposal is having four distinct 4-person group home tiers (80% of settings; includes CRCFs), which permits a wider continuum of service rate options for this extensively used service. As an individual’s needs increase, this wider continuum of service rates then permits an individual to move to the next “tiered” service level with a separate Medicaid reimbursable rate, rather than the current capitated model’s reliance on state funded outliers in many instances after exhausting DDSN’s current Band G and Band H payment/service levels.
- Pages 215, 222, 223, and 224: Describes providers’ ability to direct bill SCDHHS for services, which requires DDSN to move to a fee-for-service model.
- Pages 230-233: DDSN services “average cost/unit” for 1st year of Waiver Renewal (major DDSN services in chart above).

If the finalized IDR Waiver Renewal sets forth individual residential habilitation settings and individual rates, DDSN will convert its remaining prospectively paid residential capitated band payments on 1/1/22 and move to a fee-for-service model. Planning is already underway at DDSN for this likely scenario. From a backroom operations billing perspective, this will be an easier administrative lift than the Band B & I conversion. However, Boards will have to possess adequate cash flow to convert from its last prospective residential payment in mid-December 2020 to the next retrospective payment in early February 2022.

Implementation FY22 Legislative 2.5% COLA

The FY22 budget language states, ***“With respect to local health care providers, compensation increases shall be two and one half percent effective on the first pay date that occurs on or after July first of the current fiscal year.”*** In late August or early September, the Executive Budget Office (EBO) calculates and provides the state match funds DDSN needs to be combined with Medicaid matching funds to pay this 2.5% to DDSN’s “health care providers.” The system-wide increase is estimated at \$7.1 million to our residential, day, early intervention, and case management providers. To implement this \$7.1 million retroactive to the beginning of FY22, DDSN must get small rate increases in residential, day, early intervention, and case management services. A complicating factor is EBO needs to also calculate the increase in state funds needed to fund increases for those healthcare provider personnel with state retirement and health care (PEBA) benefits. In short, after DDSN receives the EBO funding amounts, DDSN will then be able to proposed rate increases to SCDHHS in early September with execution late in the Fall. However, DDSN is monitoring the IDR Waiver Renewal final rate increases, which are expected to be finalized in September; this may create an avenue to expedite funding these FY22 legislative mandates. I will keep you apprised.

PPP Loans

DDSN's general guidance has been these federal COVID-19 payments can't be used for costs associated with the normal delivery of DDSN services, nor can these payments be justified by using the same costs reported to DDSN on its cost reports (duplicative). COVID-19 funds are to supplement existing federal funding and not supplant DDSN federal Medicaid funds for services. DDSN has to maintain the integrity of its Medicaid funding being expensed and reflected on provider cost reports to establish adequate Certified Public Expenditures to avoid a cost settlement payment to SCDHHS. Accurate cost reports also serve as an accurate record for consideration for future rate increases.

To understand the PPP issue's potential impact on DDSN cost reports, DDSN analyzed the 15 Boards with PPP loans. These 15 Boards reported an aggregate of \$2,697,109 PPP costs in FY20. A review of their aggregate FY20 & 19 cost reports depicted FY20 cost reports' net excess Medicaid costs actually increased in FY20 for these 15 providers as compared to FY19 as illustrated below:

Analysis of FY20 PPP Costs Compared to FY20 & FY19 Cost Reports		
15 Boards' Aggregate Costs	FY20 Cost Report	FY19 Cost Report
Net DDSN Payments	\$ (114,889,559)	\$ (113,451,782)
Medicaid Allowable Cost	\$ 121,025,979	\$ 118,508,569
Excess (deficit) Medicaid Cost	\$ 6,136,420	\$ 5,056,787
% of Medicaid Cost/Net DDSN Payment	105.3%	104.5%
Reported PPP Cost not in Cost Reports	\$ 2,697,109	n/a

Despite very positive analytical results regarding PPP costs impact in FY20, providers with PPP loans completing FY21 cost reports must continue to use diligence in accounting for COVID-19 federal funds using the specific allowable costs and not supplant DDSN federal Medicaid funds for services. As required for FY20, DDSN requires FY21 financial statements continue to include a supplemental schedule (updated) to address this issue COCIF-19 federal funds issue, which is the Excel document attached to this email.

60 Legacy Properties

DDSN is in the process of implementing the FY22 Legislative Budget Proviso 36.6 regarding the 60 DDSN legacy owned properties operated by providers, which is as follows: ***“(DDSN: Transfer of Capital/Property) The department shall only transfer capital to include property and buildings to local DSN providers with written consent of the providers by memorandum of understanding and upon State Fiscal Accountability Authority approval, otherwise, the department shall be responsible for maintenance and improvements.”***

DDSN held a virtual meeting with providers on 8/4/21 to start this process. The plan to move forward is to first have DDSN Director Andrew Tharin, Engineering Division, personally examine all 60 properties' current conditions and make an inventory of structural, health & welfare, and major appliance deficiencies needing to be addressed. Director Tharin has completed about 33% of these property assessments and is expected to complete his fieldwork by the end of September. Once we have these cost estimates, it will be the cornerstone to help us shape our options forward with Commission approval. Options likely will include simply addressing properties' deficiencies and the provider signs a MOU to be responsible for all maintenance going forward; sell older properties with large deficiencies and roll into new residences, particularly splitting 8-bed CRCFs into two 4-person group homes; and potentially work out arrangements, if appropriate, with the SC State Fiscal Accountability Authority to permanently transfer ownership to providers.

Please keep track of any property maintenance expenses from 7/1/21 forward and DDSN will incorporate into a final settlement solution on each property. If you have a maintenance issue over \$10,000 that you expect DDSN to pay for, please contact Andrew Tharin (desk # 803-898-9423) prior to executing during this interim period for approval. I am

hopeful by mid to late October, DDSN will provide data to the Commission and parameters will be set on how to fully implement Proviso 36.6.

Room & Board Directive 250-09-DD

I anticipate a DRAFT Room & Board Directive being vetted in early September to the provider network. It will add clarifications and not substantive changes. Based on our review of Room & Board requests last year, the below are the recurring issues observed to help you with this year's calculation:

- In reviewing depreciation expenses, some agencies included the depreciation of vehicles and other items not related to board expenses.
- There were a number of boards that neglected to include Supplemental Nutrition Assistance Program (SNAP) benefits in their calculations.
- The calculation of room & board should be based on licensed capacity. Therefore, when determining the average amount due from each consumer it should be based on licensed capacity unless there is an unsubsidized bed. Some agencies are basing it on number of consumers in the house at that moment of time. When this is done, room and board gets overstated and the remaining individuals pay too much.

Accounting for September 2020 Appendix K Retainer Payment

The federal COVID-19 funds and SCDHHS retainer payments have raised questions as to the proper accounting on financial statements and cost reports. One issue raised repeatedly is how to account for the September 2020 Appendix K Retainer Payment. The SCDHHS link on this retainer payment is: <https://www.scdhhs.gov/pro-alert/approval-south-carolina%E2%80%99s-appendix-k-retainer-payments>. It states, *"Providers who render personal care services may be eligible to receive temporary retainer payments equal to 40% of lost revenue during certain periods of the pandemic and public response."* The period of the lost revenue calculation was from March 16, 2020 to July 17, 2020. Given the basis for these retainer payments was lost revenue due to at-home Day Services closing, it appears reasonable these Appendix K retainer payment is a revenue transaction. However, the proper accounting decision always belongs to provider management with input/judgement from their respective CPAs.

10% FMAP Update

SCDHHS is leading this statewide Medicaid HCBS improvement initiative. CMS has been in contact with SCDHHS requesting additional information. DDSN has not received further information from SCDHHS. DDSN is poised to execute those 10% FMAP budget items that can bring immediate financial relief to the DDSN deliver system upon approval to start. The 10% FMAP Steering Committee has a scheduled meeting on 9/1/21.

Closing

I, for the first time in many years, have heightened expectations for substantial system-wide progress and improvement that will flow from the IDR Waiver Renewal. There has been many years of "broccoli" for providers as DDSN had to tighten-up to get its financial house in order, as well as continuous incremental system improvements (i.e., conflict free Case Management; HCBS Residential Final Rule; Band B & I Conversion; Eligibility & Waiver Enrollment; QIO measures; COVID-19 Protocols) requiring provider administrative time to train & incorporate – thank you. However, we currently have ample cash reserves to immediately fund the required state match for the likely higher Medicaid service rates (70% match) in the IDR Waiver Renewal; these increased service rates will eliminate our current excessive use of non-Medicaid matched state funds in the system to save tens of millions of additional dollars; and the 10% FMAP HCBS improvement initiative (\$42.5 million) is about to be launched. Thank you for your patience as we have navigated the past years to finally poise the system for long-term

financial health, which will then let us spend less time on complex fiscal issues and more time focusing on operations to better serve our individuals.

The point of contact on all of the above issues is CFO Pat Maley who can be reached at desk telephone # 803/898-9697 or email pmaley@ddsn.sc.gov.

Instructions to Complete Supplementary Schedule

- 1 The "Supplemental Schedule of COVID Related Revenues and Expenses" should be completed by Boards that received or anticipate receiving supplemental funding as a result of COVID.
- 2 The Schedule should be reflect only those amounts that meet any one of the following criteria:
 - a. Funds were actually received in FY 2021 from one of these sources.
 - b. Funds were not received in FY 2021, but amounts have been recorded as a receivable.
 - c. There are expenses reported in your FY 2021 audit report that you intend to claim under on sources.
- 3 Complete the requested information for all applicable amounts.
- 4 Provide the name of the program that incurred expenses or aquired assets using COVID funding
Provide total amounts included in the expenses or assets for each program.

**COUNTY DISABILITIES AND SPECIAL NEEDS BOARD
 SUPPLEMENTAL SCHEDULE OF COVID RELATED REVENUES AND EXPENSES
 For the Fiscal Year Ended June 30, 2020**

COVID Funding Details	PPP	PRF	FEMA	Other (Specify)	Total
Funding Amount	\$ -	\$ -	\$ -	\$ -	\$ -
Anticipated Amount to Be Forgiven, if applicable	\$ -			\$ -	\$ -
Amount Recorded As Restricted Cash at Year End	\$ -	\$ -	\$ -	\$ -	\$ -
Amount Recorded As Receivable at Year End	\$ -	\$ -	\$ -	\$ -	\$ -
Amount Recorded As Revenue at Year End	\$ -	\$ -	\$ -	\$ -	\$ -
Total FY 2021 Expenses Anticipated to be Claimed	\$ -	\$ -	\$ -	\$ -	\$ -
Total FY 2021 Capital Asset Purchases to be Claimed	\$ -	\$ -	\$ -	\$ -	\$ -
Total FY 2021 Loss Revenues Applied to COVID Funding	\$ -	\$ -	\$ -	\$ -	\$ -

Financial Institution Processing PPP Funding Application:

Name of Institution _____
 Address _____

 Phone Number _____
 Contact Name _____

PPP 24 Week Forgiveness Period: Begin: _____ End: _____

Details of Programs Reporting Claimed Expenses/Assets:

Name of Program	Expense Amount	Capital Asset Amount
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
_____	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>